U.S. Private Investment in Mexico

U.S. private investment in Mexico, which dipped to an estimated $5.6 billion in 1982, could continue to provide an important capital resource. Mexican President de la Madrid has stated that Mexico needs increased inflows of foreign capital to weather the current economic crisis, and recently acknowledged publicly a GOM shift toward a somewhat more welcoming stance on foreign investment. Both we and the Mexicans stand to gain from efforts to improve the Mexican investment climate and to achieve greater consistency in establishing and administering investment laws in Mexico.

For short term foreign investment growth, Mexico needs to reestablish investor confidence, which has been shaken by currency controls (now lifted), foreign exchange shortages, reported discrimination against foreign firms in exchange allocations, and nationalization of Mexican banks. In the longer run, investment growth will depend on the degree of emphasis the GOM places on its goal of "Mexicanization" of the economy. Under the 1973 Law for the Promotion of Mexican Investment and Regulation of Foreign Investment, the GOM exercises strict control over foreign direct investment through a combination of incentives and requirements (such as export and local content performance requirements and restrictions on employment and equity participation, i.e., Mexican majority ownership). Although some flexibility has been increasingly evident, particularly for border industries and large investors, controls have been extended to a growing number of sectors in recent years.

Treatment of foreign investment is a potentially explosive topic for the GOM, going to the foundations of Mexico's revolutionary doctrine. Domestically, de la Madrid apparently believes that he has relatively limited political maneuvering room. In early contacts with U.S. business, de la Madrid indicated that his Administration would apply exisiting investment laws pragmatically but would be constrained from making any formal changes in Mexicanization laws governing foreign investment. This has not been significant enough to allay the concerns of American businessmen. Multilaterally, Mexico's G-77 advocacy also limits Mexico's politically-viable options.

Nonetheless, the GOM recognizes that foreign investment provides needed capital, technology and production facilities (an estimated one-third of Mexico's manufacturing output is produced by American firms). To attract and retain foreign capital, the GOM needs to send a strong positive signal to U.S. investors. We should encourage de la Madrid's understanding of the need for further confidence building action and continued bilateral discussion of investment issues.

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